LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7150 | **NOTE PREPARED:** Jan 5, 2015
BILL NUMBER: HB 1158 | **BILL AMENDED:**

SUBJECT: Local Government Accounting.

FIRST AUTHOR: Rep. Riecken | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: The bill provides that financial reports prepared for years beginning after December 31, 2016, for municipalities or counties with a population of more than 100,000 must be prepared in accordance with Generally Accepted Accounting Principles.

Effective Date: July 1, 2015.

Explanation of State Expenditures: The cost increase for the State Board of Accounts (SBOA) is indeterminate and would result from the additional time required to audit the Generally Accepted Accounting Principles (GAAP) compliant financial reports certain counties and municipalities and for staff training to have sufficient staff able to audit entities using GAAP.

Explanation of State Revenues:

Explanation of Local Expenditures: One-time costs for municipalities and counties with population greater than 100,000 to convert to GAAP are indeterminate, but may include reconfiguring or upgrading accounting software to produce financial reports that comply with GAAP, hiring consultants to develop financial statement formats or processes, and developing information that is required to comply with GAAP. Ongoing costs may include staff that is able to prepare financial statements in accordance with GAAP or consultants to oversee the financial reporting.

Of the 4 cities that will report using GAAP, 3 already comply. However, only 3 of the 17 counties that will report using GAAP currently use that method as their basis of accounting.

Additional Information - GAAP is a basis of accounting that is promulgated by the Governmental Accounting Standards Board (GASB). One standard of GAAP is accrual of revenues and expenditures to connect them with the period of time in which they occur, rather than with time period when the change of money occurs as the regulatory or cash basis requires. To meet this standard, the accounting system of a municipality or county with a population of more than 100,000 will have to support accrual accounting.

Also, among the GAAP standards is a requirement that units of government capitalize all property, plants, and equipment. To comply, a city may need to hire consultants and infrastructure professionals to value its property, plants, and equipment.

A review of 2012 and 2013 audit reports finds that 6 of the 21 local units to which the bill applies use GAAP, as seen in the table below.

City/County 2010 Population	Basis of Accounting	County	Basis of Accounting
Indianapolis/Marion County 820,445/903,393	GAAP	Tippecanoe County 172,780	Regulatory
Fort Wayne 253,691	GAAP	Porter County 164,343	Regulatory
Evansville 117,429	Regulatory	Hendricks County 145,448	Regulatory
South Bend 101,168	GAAP	Johnson County 139,654	Regulatory
Lake County 496,005	Regulatory	Monroe County 137,974	Regulatory
Allen County 355,329	GAAP	Madison County 131,636	Regulatory
Hamilton County 274,569	GAAP	Delaware County 117,671	Regulatory
St. Joseph County 266,931	Regulatory	LaPorte County 111,467	Regulatory
Elkhart County 197,559	Regulatory	Clark County 110,232	Regulatory
Vanderburgh 179,703	Regulatory	Vigo County 107,848	Regulatory

Regulatory accounting requirements are promulgated by the SBOA in accordance with IC 5-11-1-6. Each SBOA audit report on financial statements prepared using the regulatory basis of accounting indicates that use of the regulatory basis means that the financial statements do not conform to GAAP and that the variances "although not reasonably determinable, are presumed to be material".

Explanation of Local Revenues:

State Agencies Affected: SBOA.

Local Agencies Affected: Certain counties and municipalities.

Information Sources: http://www.in.gov/sboa/resources/reports/audit/Default.aspx, Mike Jones, City of Lafayette Controller, Adam Stone, City of Greenwood Controller, Thu Caven, City of Kokomo Deputy Controller.

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